

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REED CITY AREA PUBLIC SCHOOLS
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ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007

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July 13, 2007

INDEPENDENT AUDITORS' REPORT

Board of Education
Reed City Area Public Schools
Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Reed City Area Public Schools, Reed City, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Reed City Area Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Reed City Area Public Schools, Reed City, Michigan, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2007, on our consideration of Reed City Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Reed City Area Public Schools, Reed City, Michigan basic financial statements. The combining financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

REED CITY AREA PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of the Reed City Area Public School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to provide, in layman's terms, a look at the District's performance and past and current position. Readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis (MD&A) for State and Local Governments* issued in June 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplemental information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

The basic financial statements include two kinds of statements that present different views of the District.

District-Wide Financial Statements

The district-wide financial statements are required by GASB Statement No. 34. These statements are full accrual basis statements and provide information about the District's *overall* financial status. They are used to help determine whether or not the District is better off or worse off as the result of the year's activities. The Statement of Net Assets reports all of the District's assets and liabilities, both short-term and long-term, regardless of whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax base, the quality of the education provided and the condition of the District's buildings.

In the district-wide statements, the District's activities are classified as governmental activities. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation and administration. Property taxes and state aid finance most of these services.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2007

Fund Financial Statements

The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, a district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Special Revenue Funds for Food Service and Athletic Activities, Debt Service Funds, Capital Project Funds and Fiduciary Funds.

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition and no asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded in the fund financial statements.

Financial Analysis of the District as a Whole

The net assets of the District at June 30, 2007 amounted to an overall deficit of (\$1,679,908). The schedule below shows a condensed breakdown of the net assets.

<u>June 30,</u>	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current assets	\$ 4,288,446	\$ 5,404,425
Noncurrent assets	<u>13,649,277</u>	<u>13,050,151</u>
Total Assets	<u>17,937,723</u>	<u>18,454,576</u>
Liabilities		
Current liabilities	2,861,093	3,189,370
Non-current liabilities	<u>16,756,538</u>	<u>17,375,818</u>
Total Liabilities	<u>19,617,631</u>	<u>20,565,188</u>
Net Assets		
Invested in capital assets, net of related debt – (Deficit)	(3,492,283)	(5,312,061)
Restricted	450,833	1,115,101
Unrestricted	<u>1,361,542</u>	<u>2,086,439</u>
Total Net Assets (Deficit)	<u>\$ (1,679,908)</u>	<u>\$ (2,110,612)</u>

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2007

A significant portion of the District's net assets reflects investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted assets represent resources that are subject to external restrictions on how they may be used.

The net assets of the District increased by \$430,704 during the 2007 fiscal year. The schedule below shows the breakdown of this change.

<u>June 30,</u>	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues		
Program revenues:		
Charges for services	\$ 384,509	\$ 516,905
Operating grants and contributions	1,855,513	1,557,468
Capital grants	5,500	0
General revenues:		
Property taxes	3,440,575	3,335,513
State sources	10,280,257	10,973,775
Other	355,046	310,712
Total Revenues	<u>16,321,400</u>	<u>16,694,373</u>
Expenses		
Instruction	8,761,384	9,807,096
Support services	4,663,796	5,261,208
Community Services	139,188	88,959
Payments to Other Governmental Units	68,842	0
Food services	668,114	682,222
Athletics	353,607	315,477
Construction Projects	106,174	6,336,894
Interest on long-term debt	716,283	823,800
Loss of Sale of Fixed Assets	0	1,499,610
Redemption of Principal	0	100,000
Other Transactions	15,460	0
Unallocated depreciation	397,848	369,388
Total Expenses	<u>15,890,696</u>	<u>25,284,654</u>
Increase (Decrease) in Net Assets	<u>\$ 430,704</u>	<u>\$ (8,590,281)</u>

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2007

The Statement of Activities presented later in the district-wide financial statements, provides greater detail on the District's annual activity. The cost of the District's governmental activities for the year was \$15,890,696. State aid, operating grants and contributions provided approximately \$1,855,513 to fund the District's governmental activities. District taxpayers directly financed activities of the District with approximately \$3,440,575 in property taxes. Charges for services provided funds of approximately \$384,509.

Financial Analysis of the District's Funds

The stable financial performance of the District as a whole is reflected in its governmental funds as well. The District's governmental fund equity decreased by \$809,435 during 2007. The largest expenditures contributing to the decrease in governmental fund equity is instruction and support services.

The General Fund, which is the chief operating fund of the District, ended the year with fund equity of \$1,623,823. Michigan school funding utilizes a combination of property taxes on non-homestead property and state aid to achieve preset per pupil funding levels, or a foundation allowance, determined by the State. Overall, these revenues remained flat due to continued decreasing enrollment offset by increases in the foundation allowance.

An analysis of tax revenues and state aid to fund General Fund operations for each of the past five years is as follows:

<i>Year ended June 30,</i>	Non-Homestead Tax Revenue	% Increase (Decrease) From Prior Year	State Aid	% Increase (Decrease) From Prior Year
2007	\$2,255,191	1 %	\$10,268,985	(11) %
2006	2,225,380	1	11,581,020	5
2005	2,206,094	3	11,057,920	(4)
2004	2,130,947	(1)	11,499,226	(5)
2003	2,145,841	19	12,122,426	(3)

As shown in the table below, student enrollment dropped each year over the same timeframe based on Fall counts.

<u><i>Year ended June 30,</i></u>	<u>Enrollment</u>	<u>Decrease</u>
2007	1,767	96
2006	1,863	22
2005	1,885	64
2004	1,949	74
2003	2,023	28
2002	2,051	6

The District also received federal operating grants to fund General Fund operations. These funds were primarily derived from Title I and Title II grants in 2007. Total revenues received by the General Fund from federal sources in 2007 were \$537,800, down from \$567,337 in 2006.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2007

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget quarterly during the school year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. Overall, amendments to the original budgets were not material.

During 2007, the District amended the General Fund budget once, with the Board adopting the final changes in June 2007. The following schedule shows a comparison of the original budget, the final amended budget and the actual totals for the General Fund:

<u>Year ended June 30, 2007</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Total Revenues	\$ 14,433,303	\$ 14,515,978	\$ 14,366,308
Expenditures:			
Instruction	\$ 8,825,157	\$ 9,056,793	\$ 8,752,528
Supporting Services	4,920,132	5,189,649	4,877,302
Community Services	99,973	97,128	93,570
Payments to Other Governments	85,844	69,344	68,842
Other Transactions	10,000	12,816	12,832
Transfers	492,058	466,704	572,380
Total Expenditures and Other Uses	\$ 14,433,164	\$ 14,892,434	\$ 14,377,454

Capital Asset and Debt Administration

The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring major equipment necessary for providing educational programs for all students within the District. The District's capital additions for the year were approximately \$1,025,045 and were primarily for buildings and machinery and equipment.

The District's capital assets at year end are summarized as follows, net of accumulated depreciation:

<u>June 30,</u>	<u>2007</u>	<u>2006</u>
Land	\$ 303,694	\$ 303,694
Buildings	12,033,884	11,581,626
Land improvements	81,772	89,311
Machinery and equipment	332,069	232,429
Vehicles	280,278	197,440
	\$ 13,031,697	\$ 12,404,500

REED CITY AREA PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

Factors Bearing on the District's Future

At the time the financial statements were prepared, the District was aware of the following items that could significantly affect its future financial health:

- With the current economic condition of the country and the State of Michigan, there is uncertainty over the level at which districts will be funded. The early indication is that the foundation allowance for districts may be increased by \$50 per FTE for the 2007/2008 fiscal year, equity payment of \$23 per student and \$13 per student payment for declining enrollment. This would continue to pose a financial challenge to the District to maintain its educational programming, facilities and administration as the additional expense is projected to increase by \$275 per student.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly health insurance. Additionally, the rate districts are required to pay to fund the state retirement system over the past few years has resulted in higher annual increases to cover the number of retirees projected to occur over the next few years.
- The State continues to increase its focus on student academic achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year with the results tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the *No Child Left Behind Act*, adequate yearly progress of students will become important for maintaining and increasing funding levels as portions of funding are now tied to it.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Business Office, Reed City Area Public Schools, 829 South Chestnut Street, Reed City, Michigan 49677.

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 675,513
Investments	1,514,110
Accounts Receivable	18,475
Due from Other Governments	2,026,478
Inventories	20,094
Prepaid Expenditure	33,776
Total Current Assets	<u>4,288,446</u>

NON CURRENT ASSETS

Deferred Issuance Costs - Net	225,951
Deferred Loss on Refunding	391,629
Capital Assets	18,900,389
Less Accumulated Depreciation	<u>(5,868,692)</u>
Total Non Current Assets	<u>13,649,277</u>
TOTAL ASSETS	<u><u>\$ 17,937,723</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 42,130
Accrued Expenses	1,123,005
Accrued Interest Payable	123,380
Salaries Payable	790,603
Deferred Revenue	131,975
Current Portion of Non Current Liabilities	<u>650,000</u>
Total Current Liabilities	<u>2,861,093</u>

NON CURRENT LIABILITIES

Bonds Payable	17,141,560
Deferred Bond Premium - Net	59,741
Compensated Absences	205,237
Less Current Portion of Non Current Liabilities	<u>(650,000)</u>
Total Non Current Liabilities	<u>16,756,538</u>
Total Liabilities	<u>19,617,631</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt - (Deficit)	(3,492,283)
Restricted for Debt Service	450,833
Unrestricted	<u>1,361,542</u>
Total Net Assets - (Deficit)	<u>(1,679,908)</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 17,937,723</u></u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	CAPITAL GRANTS	NET (EXPENSE)
					REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 8,761,384	\$ 23,726	\$ 1,424,418	\$ 0	\$ (7,313,240)
Supporting Services	4,663,796	0	61,615	0	(4,602,181)
Community Services	139,188	38,988	0	0	(100,200)
Payments to Other Governmental Units	68,842	0	0	0	(68,842)
Food Service Activities	668,114	267,286	369,480	5,500	(25,848)
Athletic Activities	353,607	54,509	0	0	(299,098)
Construction Projects	106,174	0	0	0	(106,174)
Interest on Long Term Debt	716,283	0	0	0	(716,283)
Other Transactions	15,460	0	0	0	(15,460)
Unallocated Depreciation	397,848	0	0	0	(397,848)
Total Governmental Activities	<u>\$ 15,890,696</u>	<u>\$ 384,509</u>	<u>\$ 1,855,513</u>	<u>\$ 5,500</u>	<u>(13,645,174)</u>
<u>GENERAL REVENUES</u>					
Property Taxes -Levied for General Purposes					2,255,191
Property Taxes -Levied for Debt Service					1,185,384
Investment Earnings					113,661
State Sources					10,280,257
Other					241,385
Total General Revenues					<u>14,075,878</u>
Change in Net Assets					430,704
<u>NET ASSETS</u> - Beginning of Year					<u>(2,110,612)</u>
<u>NET ASSETS</u> - End of Year					\$ (1,679,908)

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2007

	<u>GENERAL FUND</u>	<u>DEBT FUND</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 62,347	\$ 450,833
Investments	1,514,110	0
Accounts Receivable	15,009	0
Due from Other Governments	2,026,478	0
Due from Other Funds	40,154	0
Inventories	6,770	0
Prepaid Expenses	31,617	0
	<hr/>	<hr/>
TOTAL ASSETS	\$ 3,696,485	\$ 450,833
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCES</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 42,130	\$ 0
Accrued Expenses	1,123,005	0
Salaries Payable	790,603	0
Due to Other Funds	0	0
Deferred Revenue	116,924	0
	<hr/>	<hr/>
Total Liabilities	2,072,662	0
	<hr/>	<hr/>
<u>FUND BALANCE</u>		
Reserved for Inventory	6,770	0
Reserved for Prepaid Expenses	31,617	0
Reserved for Debt Service	0	450,833
Unreserved, Undesignated, Reported in:		
General Fund	1,585,436	0
Unreserved, Designated, Reported in:		
Special Revenue Funds	0	0
Capital Projects Fund	0	0
	<hr/>	<hr/>
Total Fund Balances	1,623,823	450,833
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,696,485	\$ 450,833
	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 162,333	\$ 675,513
0	1,514,110
3,466	18,475
0	2,026,478
0	40,154
13,324	20,094
2,159	33,776
\$ 181,282	\$ 4,328,600

\$ 0	\$ 42,130
0	1,123,005
0	790,603
40,154	40,154
15,051	131,975
55,205	2,127,867

13,324	20,094
2,159	33,776
0	450,833
0	1,585,436
35,594	35,594
75,000	75,000
126,077	2,200,733
\$ 181,282	\$ 4,328,600

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2007

Total Governmental Fund Balances	\$ 2,200,733
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Amounts reported for governmental activities in the statement of net different because:

Capital assets used in governmental activities are not financial resources are not reported in the funds

The cost of the capital assets is	\$18,900,389	
Accumulated depreciation is	<u>(5,868,692)</u>	13,031,697

Other long-term assets are not available for pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of:

Deferred Loss on Refunding	391,629
Bond Issuance Costs	225,951

Long term liabilities are not due and payable in the current period and are not reported in the funds

Bonds Payable	(17,141,560)
Bond Premium	(59,741)
Compensated Absences	(205,237)

Accrued interest is not included as a liability in governmental funds, it is recorded when paid	<u>(123,380)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (1,679,908)</u></u>
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The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	GENERAL FUND	DEBT FUND
<u>REVENUES</u>		
Local Sources	\$ 2,418,298	\$ 1,202,881
State Sources	11,192,189	0
Federal Sources	537,800	0
Other Transactions	218,021	0
Total Revenues	<u>14,366,308</u>	<u>1,202,881</u>
<u>EXPENDITURES</u>		
Instruction	8,752,528	0
Supporting Services	4,877,302	0
Community Services	93,570	0
Payments to Other Governmental Units	68,842	0
Food Service Activities	0	0
Athletic Activities	0	0
Construction Projects	0	0
Debt Service		
Principal	0	575,000
Interest	0	761,587
Other Transactions	12,832	2,628
Total Expenditures	<u>13,805,074</u>	<u>1,339,215</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>561,234</u>	<u>(136,334)</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In	0	177,515
Transfers Out	(572,380)	0
Total Other Financing Sources (Uses)	<u>(572,380)</u>	<u>177,515</u>
Net Change in Fund Balance	(11,146)	41,181
<u>FUND BALANCE</u> - Beginning of Year	<u>1,634,969</u>	<u>409,652</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 1,623,823</u>	<u>\$ 450,833</u>

The notes to the financial statements are an integral part of this statement.

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 382,732	\$ 4,003,911
35,393	11,227,582
334,086	871,886
0	218,021
752,211	16,321,400
0	8,752,528
0	4,877,302
49,863	143,433
0	68,842
671,411	671,411
352,788	352,788
912,484	912,484
0	575,000
0	761,587
0	15,460
1,986,546	17,130,835
(1,234,335)	(809,435)
394,865	572,380
0	(572,380)
394,865	0
(839,470)	(809,435)
965,547	3,010,168
\$ 126,077	\$ 2,200,733

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

Net change in Fund Balances Total Governmental Funds	\$ (809,435)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(397,848)
Capital Outlay	1,025,045

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	194,040
Accrued Interest Payable - End of Year	(123,380)

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

The net changes in long term liabilities are:

Repayment of Bond Principal	575,000
Amortization of Deferred Charges	(25,356)

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accumulated Sick Pay - Beginning of Year	197,875
Accumulated Sick Pay - End of Year	<u>(205,237)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 430,704</u></u>
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The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2007

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 74,214	\$ 79,108
Investments	137,054	16,000
Accounts Receivable	0	5,000
Notes Receivable (net of allowance for doubtful accounts)	38,895	0
TOTAL ASSETS	<u>\$ 250,163</u>	<u>\$ 100,108</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Groups and Organizations	\$ 0	\$ 100,108
<u>NET ASSETS</u>		
Reserved for Trust Activities	<u>250,163</u>	<u>0</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 250,163</u>	<u>\$ 100,108</u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2007

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Donations	\$ 41,565
Investment Income (Change in Fair Value of Investments)	(5,320)
Earnings on Investments and Deposits	<u>10,535</u>
 TOTAL ADDITIONS	 <u>46,780</u>
 <u>DEDUCTIONS</u>	
Scholarship Awards	6,100
Library Materials	7,060
Other Expenditures	<u>70</u>
 TOTAL DEDUCTIONS	 <u>13,230</u>
 CHANGE IN NET ASSETS	 33,550
 <u>NET ASSETS</u> - Beginning of Year	 <u>216,613</u>
 <u>NET ASSETS</u> - End of Year	 <u><u>\$ 250,163</u></u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Reed City Area Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Reed City Area Public Schools (the "District") is located in Osceola Counties with its administrative offices located in Reed City, Michigan. The District is governed by the Reed City Area Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District provides services to its 1,789 students (blended count) in elementary, middle school, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service, athletic, and community service activities in the special revenue funds.

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust funds* are accounted for using the accrual method of accounting. Private purpose trust funds account for contributions earmarked for scholarships available to qualifying students of the District.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred,

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006. For fiscal year ended June 30, 2007, the per pupil foundation allowance was \$7,085 for Reed City Area Public Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Properties are assessed as of December 31. Taxes are levied and become a lien on December 1. These taxes are due on February 14, with the final collection date of February 28, before they are added to the county delinquent tax rolls. Delinquent real property taxes are purchased by the counties of Mecosta, Newaygo, Osceola and Lake and remitted to the District after settlement.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.00
Debt Service Fund - Homestead and non-homestead	4.01

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

4. Inventories

Inventories are recorded at cost and consist primarily of food and cafeteria, teaching and office supplies. USDA donated commodities are recorded at fair value.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings	20-50 years
Land Improvements	10-20 years
Machinery and Equipment	5-20 years
Vehicles	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

District employees are granted vacation and sick leave in varying amounts based on length of service. Unused vacation time does not accumulate from year-to-year. Sick leave is accumulated at different rates for various categories of employees. Unused sick leave accumulates from year-to-year to a maximum of 200 days. In the fund financial statements, only the matured liability for compensated absences is reported. The total liability is reported on the district-wide financial statements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortization of premiums, discounts and bond issuance costs, prospectively for all bonds issued after July 1, 2002.

8. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue, and debt service funds.

The budgetary data reflected in the financial statements is established by the District using the procedures outlined below:

Prior to May, the various principals, directors and supervisors review operating budgets by program or building for the fiscal year commencing the following July 1, and submit them to the business manager.

This information is used to develop a budget and resolution for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. This includes proposed expenditures and the means of financing them and is compiled on a basis consistent with accounting principles

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

generally accepted in the United States of America. In June, the budget resolution is subjected to a public hearing before the full Board and is adopted within seven days after this hearing and before July 1, the first day of the budgeted fiscal year.

Any revisions which increase or decrease expenditures for a program must be approved by the Board. The superintendent is authorized to transfer budgeted amounts between functions within any fund. The final budget reflects all revisions approved by the Board during the year. Unexpended appropriations lapse to the next fiscal year.

The budget is integrated with the accounting system of the District and is used as a management control device during the year.

Budgeted amounts are as originally adopted on June 26, 2006, or as amended by the School Board of Education on December 18, 2006 and June 18, 2007.

B. Excess of Expenditures Over Appropriations

There were no excess of expenditures over appropriations for the fiscal year 2006-2007.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments - Credit Risk

The District's deposits and investments are all on deposit with banks within the State of Michigan and Michigan School District Liquid Asset Fund Plus.

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 9 of the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with Section 7 of the District's investment policy.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, \$525,676 of the government's bank balance of \$1,151,866 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end, all of the District's investments were uncategorized as to risk.

Investments

At June 30, 2007, the District had the following investments:

	<u>Fair Value</u>
MILAF External Investment Pool - MICMS	\$ 21,496
MILAF External Investment Pool - MILAX	1,492,614
Common Stock	<u>137,054</u>
Total	<u><u>\$ 1,651,164</u></u>

The Michigan Liquid Asset Fund (MILAF) is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the School Code. MILAF is not regulated or registered with the Securities Exchange Commission and reported the same value of the pool shares as the fair value of the District's investments at June 30, 2007.

The District's common stock was donated to the District for the establishment of the Bill Porteous II and Mable Porteous Scholarship Funds or was received as a stock dividend paid on donated shares.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 3 - DETAILED NOTES ON ALL FUNDS

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds are as follows:

	<u>General</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables			
Accounts	\$ 15,009	\$ 8,466	\$ 23,475
Notes receivable	0	48,895	48,895
Less allowance for doubtful accounts	0	(10,000)	(10,000)
Due from Other Governments	2,026,478	0	2,026,478
Total Receivables	<u>\$ 2,041,487</u>	<u>\$ 47,361</u>	<u>\$ 2,088,848</u>

Notes receivable consist of student loans made by the Jewell Scholarship Fund.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants and Other Amounts Received, But Not Yet Utilized	<u>\$ 131,675</u>	<u>\$ 300</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additional	Deletions	Balance June 30, 2007
Assets Not Being Depreciated:				
Land	\$ 303,694	\$ 0	\$ 0	\$ 303,694
Other Capital Assets:				
Buildings	\$ 15,378,605	\$ 750,893	\$ 0	\$ 16,129,498
Land Improvements	239,206	0	0	239,206
Machinery and Equipment	592,590	143,302	0	735,892
Transportation Equipment	1,361,249	130,850	0	1,492,099
Subtotal	\$ 17,571,650	\$ 1,025,045	\$ 0	\$ 18,596,695
Accumulated Depreciation				
Buildings	\$ 3,796,979	\$ 298,635	\$ 0	\$ 4,095,614
Land Improvements	149,895	7,539	0	157,434
Machinery and Equipment	360,161	43,662	0	403,823
Transportation Equipment	1,163,809	48,012	0	1,211,821
Total Accumulated Depreciation	\$ 5,470,844	\$ 397,848	\$ 0	\$ 5,868,692
Net Other Capital Assets	\$ 12,100,806	\$ 627,197	\$ 0	\$ 12,728,003
Net Capital Assets	\$ 12,404,500	\$ 627,197	\$ 0	\$ 13,031,697

Depreciation for the fiscal year ended June 30, 2007 amounted to \$397,848. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Construction Commitments:

The District has no active construction projects as of June 30, 2007.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of changes in long-term liabilities:

	BONDS PAYABLE	COMPENSATED ABSENCES	TOTAL
Balance, July 1, 2006	\$ 17,716,560	\$ 197,875	\$ 17,914,435
Additions	0	7,362	7,362
Deletions	575,000	0	575,000
Balance, June 30, 2007	<u>\$ 17,141,560</u>	<u>\$ 205,237</u>	<u>\$ 17,346,797</u>
Total due after one year	<u>\$ 650,000</u>	<u>\$ 0</u>	<u>\$ 650,000</u>

At June 30, 2007, the School District's long-term bonds payable are comprised of the following individual issues:

\$112,725 1998 School Improvement Bonds due in annual installments of \$6,663 to \$45,366 beginning May 15, 2009 through May 15, 2013, plus interest at 5.91%.	\$ 66,560
\$5,100,000 2001 Refunding Bonds due in annual installments of \$325,000 to \$425,000 plus interest through May 1, 2016. Interest rates range from 4.1% to 5.0%.	3,390,000
\$1,425,000 2001 Energy Conservation Improvement Bonds due in annual installments of \$145,000 to \$170,000 plus interest through May 1, 2012. Interest rates range from 3.75% to 4.25%.	790,000
\$12,560,000 2004 School Building and Site Bonds due in annual installments of \$180,000 to \$725,000 plus interest through May 1, 2020. Interest rates range from 3.25% to 5.25%.	4,495,000
\$8,400,000 2005 Refunding Bonds due in annual installments of \$30,000 to \$835,000 plus interest through May 1, 2029. Interest rates range from 3.5% to 4.35%.	8,400,000
Total bonded debt	<u>\$ 17,141,560</u>

The 1998 School Improvement Bonds were issued in the amount of \$112,725 through the State of Michigan's Durant Bonding Program. The State of Michigan is to annually appropriate the funds for

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

the debt service payments. If the State fails to appropriate the funds, the District is under no obligation for payment.

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2008	\$ 650,000	\$ 740,280	\$ 1,390,280
2009	710,000	723,584	1,433,584
2010	790,366	695,507	1,485,873
2011	786,663	658,607	1,445,270
2012	822,057	625,487	1,447,544
2013-2017	3,627,474	2,626,112	6,253,586
2018-2022	3,995,000	1,720,936	5,715,936
2023-2027	4,125,000	865,288	4,990,288
2028-2029	1,635,000	106,166	1,741,166
	<u>\$ 17,141,560</u>	<u>\$ 8,761,967</u>	<u>\$ 25,903,527</u>

The annual requirements to amortize the accrued sick leave is uncertain because it is unknown when the employees will use the sick leave.

E. Short-Term Debt

In August 2006, the District borrowed \$1,000,000 for short-term cash flow purposes. This was paid back by year-end. Total interest was \$18,173.

F. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2007, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 40,154	\$ 0
School Service Fund - Food Service	0	40,154
Agency Fund - High School Account	0	4,385
Agency Fund - Athletic Fundraising Account	4,385	0
	<u>\$ 44,539</u>	<u>\$ 44,539</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2007 are expected to be repaid within one year.

Interfund transfers as shown in the individual fund financial statements at June 30, 2007, were:

	TRANSFERS IN	TRANSFERS OUT
General Fund	\$ 0	\$ 572,380
Capital Projects Fund	75,000	0
School Service Fund - Athletic Activities Fund	319,865	0
Debt Fund	177,515	0
	<u>\$ 572,380</u>	<u>\$ 572,380</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

G. Leases

The rental expense for the year ended June 30, 2007, totaled \$47,262.

The rental expense consists of lease agreements on copiers. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	<u>PAYABLES</u>
2008	\$ 46,368
2009	46,368
2010	46,368
2011	45,474
	<u>\$ 184,578</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 4 - OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributed to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30036, Lansing, Michigan 48909.

Funding Policy – Basic Plan members make no contributions. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007, was 16.34% for the first quarter and 17.74% for the remainder of the year. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2007, 2006 and 2005 were \$1,411,850, \$1,389,338 and \$1,311,438 respectively, and were equal to the required contribution for those years.

Other Post Employment Benefits Funding Policy

Retirees have the option of health, dental and vision coverage, which is funded on a cash basis by the employers. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

B. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for all such risks of loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

C. Advance Refunding

In December 2005, the District issued \$8,400,000 of refunding bonds to defease \$7,740,000 of the 2004 School Building and Site Bonds. The proceeds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt.

D. Defeased Debt

During 2001, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 2,372,652	\$ 2,428,917	\$ 2,418,298
State Sources	11,400,257	11,306,182	11,192,189
Federal Sources	503,145	572,143	537,800
Other Transactions	157,249	208,736	218,021
Total Revenues	14,433,303	14,515,978	14,366,308
<u>EXPENDITURES</u>			
Instruction			
Basic Instruction	7,108,136	7,383,365	7,154,039
Added Needs	1,537,343	1,520,650	1,451,695
Adult and Continuing Education	179,678	152,778	146,794
Supporting Services			
Pupil	464,037	444,489	410,421
Instructional Staff	375,297	324,540	299,867
General Administration	365,097	320,918	291,015
School Administration	788,218	901,189	887,412
Business	257,434	243,266	233,773
Operating and Maintenance	1,440,817	1,594,363	1,436,133
Pupil Transportation	1,034,642	1,164,146	1,132,260
Central Services	194,590	196,738	186,421
Community Services	99,973	97,128	93,570
Payments to Other Governmental Units	85,844	69,344	68,842
Other Transactions	10,000	12,816	12,832
Total Expenditures	13,941,106	14,425,730	13,805,074
Excess (Deficiency) of Revenues Over (Under) Expenditures	492,197	90,248	561,234
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	(492,058)	(466,704)	(572,380)
Net Change in Fund Balance	139	(376,456)	(11,146)
<u>FUND BALANCE</u> - Beginning of Year	1,640,720	1,634,967	1,634,969
<u>FUND BALANCE</u> - End of Year	\$ 1,640,859	\$ 1,258,511	\$ 1,623,823

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2007

	SPECIAL REVENUE		
	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	COMMUNITY SERVICES FUND
<u>ASSETS</u>			
Cash	\$ 46,862	\$ 23,870	\$ 16,601
Accounts Receivable	1,996	0	1,470
Inventories:			
USDA Commodities	2,807	0	0
Other	10,517	0	0
Prepaid Expenditures	0	0	2,159
 TOTAL ASSETS	 \$ 62,182	 \$ 23,870	 \$ 20,230
 <u>LIABILITIES AND FUND BALANCE</u>			
 <u>LIABILITIES</u>			
Due to Other Funds	\$ 40,154	\$ 0	\$ 0
Deferred Revenue	6,747	150	8,154
 Total Liabilities	 \$ 46,901	 \$ 150	 \$ 8,154
 <u>FUND BALANCE</u>			
Reserved for			
Inventory	\$ 13,324	\$ 0	\$ 0
Prepaid Expenditures	0	0	2,159
Unreserved			
Designated for:			
Food Service	1,957	0	0
Athletic Activities	0	23,720	0
Community Services	0	0	9,917
Undesignated	0	0	0
 Total Fund Balance	 \$ 15,281	 \$ 23,720	 \$ 12,076
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 62,182	 \$ 23,870	 \$ 20,230

CAPITAL PROJECT FUND	TOTAL
\$ 75,000	\$ 162,333
0	3,466
0	2,807
0	10,517
0	2,159
<u>\$ 75,000</u>	<u>\$ 181,282</u>

\$ 0	\$ 40,154
0	15,051
<u>\$ 0</u>	<u>\$ 55,205</u>

\$ 0	\$ 13,324
0	2,159
0	1,957
0	23,720
0	9,917
75,000	75,000
<u>\$ 75,000</u>	<u>\$ 126,077</u>
<u>\$ 75,000</u>	<u>\$ 181,282</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE		
	FOOD SERVICE FUND	ATHLETIC ACTIVITIES FUND	COMMUNITY SERVICES FUND
<u>REVENUES</u>			
Local Sources	\$ 274,680	\$ 55,455	\$ 39,511
State Sources	35,393	0	0
Federal Sources	334,086	0	0
Total Revenues	\$ 644,159	\$ 55,455	\$ 39,511
<u>EXPENDITURES</u>			
Food Service Activities	\$ 671,411	\$ 0	\$ 0
Athletic Activities	0	352,788	0
Community Activities	0	0	49,863
Construction Projects	0	0	0
Total Expenditures	\$ 671,411	\$ 352,788	\$ 49,863
Excess of Revenues Over (Under) Expenditures	\$ (27,252)	\$ (297,333)	\$ (10,352)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	0	319,865	0
Net Change in Fund Balance	\$ (27,252)	\$ 22,532	\$ (10,352)
<u>FUND BALANCE</u> - Beginning of Year	42,533	1,188	22,428
<u>FUND BALANCE</u> - End of Year	\$ 15,281	\$ 23,720	\$ 12,076

CAPITAL PROJECT FUND	TOTAL
\$ 13,086	\$ 382,732
0	35,393
0	334,086
\$ 13,086	\$ 752,211
\$ 0	\$ 671,411
0	352,788
0	49,863
912,484	912,484
\$ 912,484	\$ 1,986,546
\$ (899,398)	\$ (1,234,335)
75,000	394,865
\$ (824,398)	\$ (839,470)
899,398	965,547
\$ 75,000	\$ 126,077

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

FIDUCIARY FUND TYPES
COMBINING BALANCE SHEET

JUNE 30, 2007

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS	TOTAL
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 74,214	\$ 79,108	\$ 153,322
Investments	137,054	16,000	153,054
Accounts Receivable	0	5,000	5,000
Due from HS Internal	0	4,385	4,385
Notes Receivable (net of allowance for doubtful accounts of \$10,000)	38,895	0	38,895
 TOTAL ASSETS	 \$ 250,163	 \$ 104,493	 \$ 354,656
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Due to Groups and Organizations	\$ 0	\$ 100,108	\$ 100,108
Due to Athletic Fundraising	0	4,385	4,385
 TOTAL LIABILITIES	 0	 104,493	 104,493
<u>FUND BALANCE</u>			
Reserved for:			
Scholarships and Memorials	250,163	0	250,163
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 250,163	 \$ 104,493	 \$ 354,656

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

PRIVATE PURPOSE TRUST FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2007

	JEWELL SCHOLARSHIP	EMPLOYEE SCHOLARSHIP	BILL PORTEOUS II SCHOLARSHIP
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 66,768	\$ 68	\$ 7,973
Investments	0	0	50,255
Notes Receivable (net of allowance for doubtful accounts of \$10,000)	38,895	0	0
	<hr/>		
TOTAL ASSETS	<u>\$ 105,663</u>	<u>\$ 68</u>	<u>\$ 58,228</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>	\$ 0	\$ 0	\$ 0
<u>FUND BALANCE</u>			
Reserved for:			
Student Scholarships and Memorials	105,663	68	58,228
	<hr/>		
TOTAL LIABILITIES AND FUND BALANCE	\$ 105,663	\$ 68	\$ 58,228

MABLE PORTEOUS SCHOLARSHIP	CAMERON HAMILTON PORTEOUS SCHOLARSHIP	WILLIAM PORTEOUS SCHOLARSHIP	TOTAL
\$ (2,309)	\$ 15	\$ 1,699	\$ 74,214
47,754	978	38,067	137,054
0	0	0	38,895
\$ 45,445	\$ 993	\$ 39,766	\$ 250,163
\$ 0	\$ 0	\$ 0	\$ 0
45,445	993	39,766	250,163
\$ 45,445	\$ 993	\$ 39,766	\$ 250,163

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

PRIVATE PURPOSE TRUST FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2007

	JEWELL SCHOLARSHIP	EMPLOYEE SCHOLARSHIP	NORMAN LIBRARY
<u>REVENUES</u>			
Donations	\$ 0	\$ 1,386	\$ 0
Investment Income:			
Change in Fair Value of Investments	0	0	0
Interest and Dividends	4,405	4	0
	<hr/>	<hr/>	<hr/>
Total Revenues	4,405	1,390	0
	<hr/>	<hr/>	<hr/>
<u>EXPENDITURES</u>			
Scholarship Awards	0	1,600	0
Library materials	0	0	7,060
Other Expenditures	70	0	0
	<hr/>	<hr/>	<hr/>
Total Expenditures	70	1,600	7,060
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures	4,335	(210)	(7,060)
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	101,328	278	7,060
	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 105,663	\$ 68	\$ 0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

BILL PORTEOUS II SCHOLARSHIP	MABLE PORTEOUS SCHOLARSHIP	CAMERON HAMILTON PORTEOUS SCHOLARSHIP	WILLIAM PORTEOUS SCHOLARSHIP	TOTAL
\$ 0	\$ 20	\$ 1,038	\$ 39,121	\$ 41,565
(2,442)	(1,764)	(60)	(1,054)	(5,320)
2,261	2,151	15	1,699	10,535
(181)	407	993	39,766	46,780
0	4,500	0	0	6,100
0	0	0	0	7,060
0	0	0	0	70
0	4,500	0	0	13,230
(181)	(4,093)	993	39,766	33,550
58,409	49,538	0	0	216,613
\$ 58,228	\$ 45,445	\$ 993	\$ 39,766	\$ 250,163

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

AGENCY FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2007

	NORMAN ELEMENTARY ACCOUNT	MIDDLE SCHOOL ACCOUNT	HIGH SCHOOL ACCOUNT	ATHLETIC FUNDRAISING ACCOUNT
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 9,413	\$ 32,732	\$ 22,297	\$ 7,504
Investments	0	0	16,000	0
Accounts Receivable	0	0	0	5,000
Due from HS Internal	0	0	0	4,385
TOTAL ASSETS	<u>\$ 9,413</u>	<u>\$ 32,732</u>	<u>\$ 38,297</u>	<u>\$ 16,889</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Groups and Organizations	\$ 9,413	\$ 32,732	\$ 33,912	\$ 16,889
Due to Athletic Fundraising	0	0	4,385	0
	9,413	32,732	38,297	16,889
<u>FUND BALANCE</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 9,413</u>	<u>\$ 32,732</u>	<u>\$ 38,297</u>	<u>\$ 16,889</u>

BEVERAGE CONSORTIA ACCOUNT	TOTAL
\$ 7,162	\$ 79,108
0	16,000
0	5,000
0	4,385
<u>\$ 7,162</u>	<u>\$ 104,493</u>

\$ 7,162	\$ 100,108
<u>0</u>	<u>4,385</u>
7,162	104,493
<u>0</u>	<u>0</u>
<u>\$ 7,162</u>	<u>\$ 104,493</u>

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

AGENCY FUND - NORMAN ELEMENTARY SCHOOL ACCOUNT

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2007

	BALANCE 7/1/2006	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2007
4th Grade	\$ 2,654	\$ 734	\$ 2,467	\$ 921
5th Grade	450	205	655	0
Accelerated Reader	38	0	0	38
Activity	114	3,171	3,146	139
After School Account	0	0	0	0
Book Fair	573	944	1,053	464
Care Packages	0	275	220	55
Family School Service	223	100	9	314
Fitness Program	0	1,618	1,343	275
Flower	166	30	136	60
Fun Fours	0	105	55	50
In/Out	0	9,726	9,720	6
Interest Fund	79	511	523	67
Kindergarten	0	138	88	50
Library	657	259	124	792
LIFT	917	419	161	1,175
Morale Fund	4	0	0	4
Nutrition Grant	0	5,000	4,491	509
Osceola County Foundation Grant	1,447	2,186	1,728	1,905
Pencil/Paper	313	81	380	14
Pop	833	1,179	1,782	230
PTO Fund	862	0	500	362
S. Lucey Walking Club	1	0	0	1
Safety Patrol	666	1,337	1,491	512
Summer Program	0	1,470	0	1,470
	<u>\$ 9,997</u>	<u>\$ 29,488</u>	<u>\$ 30,072</u>	<u>\$ 9,413</u>

Represented By

Assets

Cash

\$ 9,997

\$ 9,413

Liabilities

Due to Groups and Organizations

\$ 9,997

\$ 9,413

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

AGENCY FUND - MIDDLE SCHOOL ACCOUNT

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2007

	BALANCE 7/1/2006	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2007
6th Grade	\$ 385	\$ 3,259	\$ 3,639	\$ 5
7th Grade	168	3,361	3,416	113
8th Grade	4,204	15,350	15,377	4,177
Band - Resale	385	2,179	2,558	6
Band Sales	67	4,778	3,679	1,166
Candy Machine	440	2,720	2,760	400
Counseling	225	200	148	277
Cross Country	288	0	0	288
Daily Living	1,239	5,402	4,936	1,705
Grant Money	11	2,500	1,000	1,511
Interest	2,349	1,650	0	3,999
Interest CD	124	0	0	124
MS Cheerleading	193	0	0	193
Newspaper	1,496	0	0	1,496
Pencils	901	55	0	956
Pep Club	3,710	150	76	3,784
Pop Club	3,885	5,968	5,133	4,720
Science Department	0	470	0	470
Shop Department	1,019	825	1,785	59
Ski Club	27	4,404	4,408	23
S.T.A.N.D.	497	0	497	0
Student Council	4,266	8,240	10,150	2,356
Yearbook	4,936	4,185	4,217	4,904
	<u>\$ 30,815</u>	<u>\$ 65,696</u>	<u>\$ 63,779</u>	<u>\$ 32,732</u>
Represented by				
Assets				
Cash	<u>\$ 30,815</u>			<u>\$ 32,732</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 30,815</u>			<u>\$ 32,732</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

AGENCY FUND - HIGH SCHOOL ACCOUNT

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2007

	BALANCE 7/1/2006	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2007
Advance Placement English	\$ 43	\$ 0	\$ 0	\$ 43
Annual (Yearbook)	5,772	29,289	32,512	2,549
Assembly	300	0	0	300
CBI	0	14	14	0
Chicago Trip	500	17,937	17,827	610
Choral Music	4	3,121	3,089	36
Class of 2006	1,284	0	57	1,227
Class of 2007	86	2,328	1,888	526
Class of 2008	3,303	5,105	7,361	1,047
Class of 2009	641	4,950	2,503	3,088
Class of 2010	0	4,287	1,895	2,392
Coke Account	1,352	7,626	8,276	702
Coke Scholarship	660	0	0	660
Coyote Connection	42	0	0	42
Dance Team	188	0	188	0
Drama Club	1,390	735	422	1,703
English/Math	314	550	72	792
Equestrian Team	684	3,950	4,321	313
Health Education - Drug Free	92	0	19	73
High School Flower Fund	191	324	363	152
Grant Fund	625	0	625	0
High School Improvement	358	325	0	683
Industrial Arts	2,644	2,835	3,756	1,723
Interest	1,992	1,949	0	3,941
Leadership	619	541	325	835
Library Internal	9	2,041	1,602	448
Make a Difference	40	0	0	40
National Art	1,797	660	1,511	946
National Honor Society	1,035	1,968	2,012	991
Outing Club	437	0	0	437
PAC	0	2,000	0	2,000
Pepsi Cola Fund	271	566	348	489
Quizbowl	222	197	52	367
Rainforest	(28)	0	0	(28)

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

AGENCY FUND - HIGH SCHOOL ACCOUNT

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2007

	BALANCE 7/1/2006	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2007
Recycle	300	371	251	420
S.A.D.D.	665	0	0	665
Science	827	437	305	959
School Store	0	5,783	4,709	1,074
School Store Taxes	0	345	344	1
Service	15	0	0	15
Ski Club	207	796	952	51
Spanish Club	183	526	640	69
Student Council	3,396	4,254	2,697	4,953
TI-IN Network	533	0	0	533
Weight Room	141	0	8	133
Welding	0	88	0	88
Youth in Government	462	4,034	4,295	201
Youth Advisory Committee	48	250	290	8
	<u>\$ 33,644</u>	<u>\$ 110,182</u>	<u>\$ 105,529</u>	<u>\$ 38,297</u>

Represented by

Assets

Cash	\$ 17,644	\$ 22,297
Investments	<u>16,000</u>	<u>16,000</u>

Total Assets	<u>\$ 33,644</u>	<u>\$ 38,297</u>
--------------	------------------	------------------

Liabilities

Due to Athletic Fundraising	\$ 33,644	\$ 4,385
Due to Groups and Organizations	<u>0</u>	<u>33,912</u>

Total Liabilities	<u>\$ 33,644</u>	<u>\$ 38,297</u>
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REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

AGENCY FUND - ATHLETIC FUNDRAISING ACCOUNT

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
YEAR ENDED JUNE 30, 2007

	BALANCE 7/1/2006	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2007
Athletic Director	\$ 259	\$ 7,440	\$ 7,648	\$ 51
Baseball	14	1,630	1,124	520
Boys Basketball	(808)	2,498	1,551	139
Boys Soccer	2,152	240	961	1,431
Cheer	620	1,827	2,197	250
Cross Country	2,141	688	2,365	464
Football	2,126	9,512	9,136	2,502
Girls Basketball	0	3,472	3,399	73
Girls Soccer	786	0	362	424
Golf	665	184	250	599
Lost Equipment	766	0	0	766
MHSAA Tournament	(1)	1	0	0
School Store	294	551	275	570
Softball	1,770	4,790	4,992	1,568
Track	3,978	6,187	8,308	1,857
Volleyball	952	3,676	4,447	181
Wrestling	5,425	12,146	13,690	3,881
Unclassified	791	822	0	1,613
	<u>\$ 21,930</u>	<u>\$ 55,664</u>	<u>\$ 60,705</u>	<u>\$ 16,889</u>
Represented by				
Assets				
Cash	\$ 17,545			\$ 7,504
Accounts Receivable	0			5,000
Due from HS Internal	0			4,385
Inventory	4,385			0
Total Assets	<u>\$ 21,930</u>			<u>\$ 16,889</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 21,930</u>			<u>\$ 16,889</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2007

1998 SCHOOL IMPROVEMENT BONDS

<u>TITLE OF ISSUE</u>	1998 School Improvement Bonds																													
<u>PURPOSE</u>	School improvements																													
<u>INTEREST PAYABLE</u>	May 15, of each year																													
<u>AMOUNT OF ISSUE</u>	\$ 112,725																													
<u>DUE DATES</u>	<table><tr><th colspan="3">REQUIREMENTS</th></tr><tr><th>TOTAL</th><th>INTEREST</th><th>PRINCIPAL</th></tr><tr><td>\$ 0</td><td>\$ 0</td><td>\$ 0</td></tr><tr><td>7,916</td><td>7,916</td><td>0</td></tr><tr><td>53,185</td><td>7,819</td><td>45,366</td></tr><tr><td>7,916</td><td>1,253</td><td>6,663</td></tr><tr><td>7,916</td><td>859</td><td>7,057</td></tr><tr><td>7,916</td><td>442</td><td>7,474</td></tr><tr><td>\$ 84,849</td><td>\$ 18,289</td><td>\$ 66,560</td></tr></table>			REQUIREMENTS			TOTAL	INTEREST	PRINCIPAL	\$ 0	\$ 0	\$ 0	7,916	7,916	0	53,185	7,819	45,366	7,916	1,253	6,663	7,916	859	7,057	7,916	442	7,474	\$ 84,849	\$ 18,289	\$ 66,560
REQUIREMENTS																														
TOTAL	INTEREST	PRINCIPAL																												
\$ 0	\$ 0	\$ 0																												
7,916	7,916	0																												
53,185	7,819	45,366																												
7,916	1,253	6,663																												
7,916	859	7,057																												
7,916	442	7,474																												
\$ 84,849	\$ 18,289	\$ 66,560																												

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2007

2001 REFUNDING BONDS

<u>TITLE OF ISSUE</u>	2001 Refund Bonds
<u>PURPOSE</u>	Advance refunding of the 1991 School Building and Site Bonds
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 5,100,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2008	4.100 %	\$ 479,232	\$ 77,116	\$ 77,116	\$ 325,000
2009	4.200 %	480,908	70,454	70,454	340,000
2010	4.300 %	481,628	63,314	63,314	355,000
2011	4.375 %	476,362	55,681	55,681	365,000
2012	4.500 %	470,394	47,697	47,697	375,000
2013	4.625 %	468,518	39,259	39,259	390,000
2014	4.750 %	460,482	30,241	30,241	400,000
2015	4.875 %	456,482	20,741	20,741	415,000
2016	5.000 %	446,250	10,625	10,625	425,000
		<u>\$ 4,220,256</u>	<u>\$ 415,128</u>	<u>\$ 415,128</u>	<u>\$ 3,390,000</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2007

2001 ENERGY CONSERVATION IMPROVEMENT BONDS

<u>TITLE OF ISSUE</u>	2001 Energy Conservation Improvement Bonds
<u>PURPOSE</u>	Energy conservation improvements
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 1,425,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2008	3.75 %	\$ 176,990	\$ 15,995	\$ 15,995	\$ 145,000
2009	4.00 %	176,552	13,276	13,276	150,000
2010	4.05 %	180,552	10,276	10,276	160,000
2011	4.15 %	179,072	7,036	7,036	165,000
2012	4.25 %	177,226	3,613	3,613	170,000
		<u>\$ 890,392</u>	<u>\$ 50,196</u>	<u>\$ 50,196</u>	<u>\$ 790,000</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2007

2004 SCHOOL BUILDING AND SITE BONDS

<u>TITLE OF ISSUE</u>	2004 School Building and Site Bonds
<u>PURPOSE</u>	School building and site improvements
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 12,560,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2008	3.250 %	\$ 389,068	\$ 104,534	\$ 104,534	\$ 180,000
2009	3.500 %	393,218	101,609	101,609	190,000
2010	3.750 %	396,568	98,284	98,284	200,000
2011	4.000 %	404,068	94,534	94,534	215,000
2012	4.125 %	410,468	90,234	90,234	230,000
2013	4.250 %	415,982	85,491	85,491	245,000
2014	4.500 %	425,568	80,284	80,284	265,000
2015	4.250 %	428,644	74,322	74,322	280,000
2016	4.375 %	441,744	68,372	68,372	305,000
2017	5.250 %	798,400	61,700	61,700	675,000
2018	5.250 %	787,962	43,981	43,981	700,000
2019	5.000 %	776,212	25,606	25,606	725,000
2020	5.250 %	299,962	7,481	7,481	285,000
		<u>\$ 6,367,864</u>	<u>\$ 936,432</u>	<u>\$ 936,432</u>	<u>\$ 4,495,000</u>

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE

JUNE 30, 2007

2005 REFUNDING BONDS

<u>TITLE OF ISSUE</u>	2005 Refunding Bonds
<u>PURPOSE</u>	Advance refunding of the 2004 School Building and Site Bonds
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 8,400,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2008	3.500 %	\$ 344,990	\$ 172,495	\$ 172,495	\$ 0
2009	3.500 %	374,990	172,495	172,495	30,000
2010	3.625 %	373,940	171,970	171,970	30,000
2011	3.750 %	377,852	171,426	171,426	35,000
2012	3.750 %	381,540	170,770	170,770	40,000
2013	4.000 %	380,040	170,020	170,020	40,000
2014	4.000 %	378,440	169,220	169,220	40,000
2015	4.000 %	381,840	168,420	168,420	45,000
2016	4.000 %	380,040	167,520	167,520	45,000
2017	4.000 %	383,240	166,620	166,620	50,000
2018	4.000 %	381,240	165,620	165,620	50,000
2019	4.000 %	384,240	164,620	164,620	55,000
2020	4.000 %	852,040	163,520	163,520	525,000
2021	4.000 %	1,126,040	153,020	153,020	820,000
2022	4.000 %	1,108,240	136,620	136,620	835,000
2023	4.000 %	1,069,840	119,920	119,920	830,000
2024	4.050 %	1,026,640	103,320	103,320	820,000
2025	4.100 %	988,430	86,715	86,715	815,000
2026	4.150 %	975,016	70,008	70,008	835,000
2027	4.200 %	930,362	52,681	52,681	825,000
2028	4.300 %	890,712	35,356	35,356	820,000
2029	4.350 %	850,454	17,727	17,727	815,000
		\$ 14,340,166	\$ 2,970,083	\$ 2,970,083	\$ 8,400,000

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

SINGLE AUDIT

JUNE 30, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SINGLE AUDIT
YEAR ENDED JUNE 30, 2007

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July 13, 2007

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Reed City Area Public Schools
Reed City, Michigan

COMPLIANCE

We have audited the compliance of Reed City Area Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Reed City Area Public Schools major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Reed City Area Public Schools' management. Our responsibility is to express an opinion on Reed City Area Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reed City Area Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Reed City Area Public Schools' compliance with those requirements.

In our opinion, Reed City Area Public Schools complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of Reed City Area Public Schools' is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Reed City Area Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type or compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the district's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the district's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reed City Area Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated July 13, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Reed City Area Public Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

REED CITY AREA SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2007	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
Title I Grants to Local Education Agencies								
Project No. 051530-0506	84.010	\$ 31,936	\$ 4,245	\$ 31,936	\$ 0	\$ 4,245	\$ 0	\$ 0
Project No. 061530-0506	84.010	366,217	8,788	318,685	0	8,788	0	0
Project No. 061530-0607	84.010	47,531	0	0	46,998	27,086	19,912	0
Project No. 071530-0607	84.010	335,296	0	0	298,151	212,797	85,354	0
Total		<u>\$ 780,980</u>	<u>\$ 13,033</u>	<u>\$ 350,621</u>	<u>\$ 345,149</u>	<u>\$ 252,916</u>	<u>\$ 105,266</u>	<u>\$ 0</u>
Handicapped Preschool and School Program								
Project No. 060440/SPSR	84.027A	\$ 1,786	\$ 1,707	\$ 1,786	\$ 0	\$ 1,707	\$ 0	\$ 0
Title V - LEA Allocation								
Project No. 060250-0506	84.298	\$ 4,088	\$ 1,809	\$ 4,021	\$ 0	\$ 1,809	\$ 0	\$ 0
Project No. 060250-0607	84.298	66	0	0	66	66	0	0
Project No. 070250-0607	84.298	1,738	0	0	1,681	1,145	536	0
Total		<u>\$ 5,892</u>	<u>\$ 1,809</u>	<u>\$ 4,021</u>	<u>\$ 1,747</u>	<u>\$ 3,020</u>	<u>\$ 536</u>	<u>\$ 0</u>
Title II D - Technology Literacy Challenge Grant								
Project No. 054290-0506	84.318	\$ 2,175	\$ 126	\$ 2,175	\$ 0	\$ 126	\$ 0	\$ 0
Project No. 064290-0506	84.318	6,832	530	6,619	0	530	0	0
Project No. 064290-0607	84.318	213	0	0	213	213	0	0
Project No. 074290-0607	84.318	3,442	0	0	3,273	2,473	800	0
Total		<u>\$ 12,662</u>	<u>\$ 656</u>	<u>\$ 8,794</u>	<u>\$ 3,486</u>	<u>\$ 3,342</u>	<u>\$ 800</u>	<u>\$ 0</u>
Title II A - Improving Teacher Quality								
Project No. 060520-0506	84.367	\$ 132,189	\$ 28,577	\$ 121,510	\$ 0	\$ 28,577	\$ 0	\$ 0
Project No. 060520-0607	84.367	10,679	0	0	10,677	9,485	1,192	0
Project No. 070520-0607	84.367	129,833	0	0	125,821	84,059	41,762	0
Total		<u>\$ 272,701</u>	<u>\$ 28,577</u>	<u>\$ 121,510</u>	<u>\$ 136,498</u>	<u>\$ 122,121</u>	<u>\$ 42,954</u>	<u>\$ 0</u>
Total Passed Through M.D.E.		<u>\$ 1,074,021</u>	<u>\$ 45,782</u>	<u>\$ 486,732</u>	<u>\$ 486,880</u>	<u>\$ 383,106</u>	<u>\$ 149,556</u>	<u>\$ 0</u>
Passed Through Mecosta/Osceola ISD:								
Special Education IDEA:								
Project No. 070480-EOSD	84.027A	\$ 15,000	\$ 0	\$ 0	\$ 15,000	\$ 15,000	\$ 0	\$ 0
Project No. 070490-TS	84.027A	1,118	0	0	1,118	1,118	0	0
Total Passed Through ISD		<u>\$ 16,118</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,118</u>	<u>\$ 16,118</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total U.S. Department of Education		<u>\$ 1,090,139</u>	<u>\$ 45,782</u>	<u>\$ 486,732</u>	<u>\$ 502,998</u>	<u>\$ 399,224</u>	<u>\$ 149,556</u>	<u>\$ 0</u>

See accompanying notes

REED CITY AREA SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2006	(MEMO ONLY) PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2007	ADJUSTMENTS
U.S. Department of Health and Human Services								
Passed Through Family Independence Agency								
Home School Coordinator								
Project No. SFSC04-67001-3	93.556	\$ 24,498	\$ 1,631	\$ 15,435	\$ 5,041	\$ 6,672	\$ 0	\$ 0
Project No. SFSC04-67001-4	93.556	24,498	0	0	15,777	11,937	3,840	0
		<u>\$ 48,996</u>	<u>\$ 1,631</u>	<u>\$ 15,435</u>	<u>\$ 20,818</u>	<u>\$ 18,609</u>	<u>\$ 3,840</u>	<u>\$ 0</u>
Passed Through Mecosta Osceola Intermediate School District								
Medicaid Outreach	93.778	\$ 3,984	\$ 0	\$ 0	\$ 3,984	\$ 3,984	\$ 0	\$ 0
Total U.S. Department of Health and Human Services	93.556	<u>\$ 52,980</u>	<u>\$ 1,631</u>	<u>\$ 15,435</u>	<u>\$ 24,802</u>	<u>\$ 22,593</u>	<u>\$ 3,840</u>	<u>\$ 0</u>
U.S Department of Agriculture								
Passed Through Michigan Department of Education (M.D.E.)								
Child Nutrition Cluster								
National School Lunch Program								
Section 4 - Total Servings - 071950 and 061950	10.555	\$ 41,846	\$ 0	\$ 0	\$ 41,846	\$ 41,846	\$ 0	\$ 0
Section 11 - Total Servings - 061960 and 051960	10.555	209,318	0	0	209,318	209,318	0	0
Total	10.555	<u>\$ 251,164</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 251,164</u>	<u>\$ 251,164</u>	<u>\$ 0</u>	<u>\$ 0</u>
National School Lunch Breakfast Program								
Breakfast - 071970 and 061970	10.553	\$ 61,807	\$ 0	\$ 0	\$ 61,807	\$ 61,807	\$ 0	\$ 0
Total Child Nutrition Cluster		<u>\$ 312,971</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 312,971</u>	<u>\$ 312,971</u>	<u>\$ 0</u>	<u>\$ 0</u>
Food Distribution								
Entitlement Commodities	10.550	\$ 20,496	\$ (214)	\$ 0	\$ 20,496	\$ 20,496	\$ 0	\$ 214
Bonus Commodities	10.550	619	(406)	0	619	619	0	406
Total	10.550	<u>\$ 21,115</u>	<u>\$ (620)</u>	<u>\$ 0</u>	<u>\$ 21,115</u>	<u>\$ 21,115</u>	<u>\$ 0</u>	<u>\$ 620</u>
Total Passed Through M.D.E.		<u>\$ 334,086</u>	<u>\$ (620)</u>	<u>\$ 0</u>	<u>\$ 334,086</u>	<u>\$ 334,086</u>	<u>\$ 0</u>	<u>\$ 620</u>
Total U.S. Department of Agriculture		<u>\$ 334,086</u>	<u>\$ (620)</u>	<u>\$ 0</u>	<u>\$ 334,086</u>	<u>\$ 334,086</u>	<u>\$ 0</u>	<u>\$ 620</u>
U.S. Department of Homeland Security								
Passed Through Michigan Department of State Police								
State Domestic Preparedness Equipment Support Program	97.004	\$ 10,000	\$ 0	\$ 0	\$ 10,000	\$ 10,000	\$ 0	\$ 0
Total U.S. Department of Homeland Security		<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Federal Financial Assistance		<u>\$ 1,487,205</u>	<u>\$ 46,793</u>	<u>\$ 502,167</u>	<u>\$ 871,886</u>	<u>\$ 765,903</u>	<u>\$ 153,396</u>	<u>\$ 620</u>
					(B)	(C)		(D)

See accompanying notes

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2007, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Revenues from Federal Sources - Statement of Revenues,	
Expenditures and Changes in Fund Balances - Governmental Funds	\$ <u>871,886</u>
 Federal Expenditures per Schedule of Expenditures of Federal Awards	 \$ <u>871,886</u>

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per Cash Management System (CMS)	\$ 788,159
--	------------

Add Items Not on CMS Report:

Amounts Received Through Intermediate School District		
Special Education IDEA	\$ 16,118	
Medicaid Outreach	3,984	
Amounts Received Through Family Independence Agency		
Home School Coordinator	18,609	
Amounts Received Through		
Michigan Department of State Police		
State Domestic Preparedness Equipment		
Support Program	10,000	
Amounts Received as Payments in Kind		
Food Distribution Program		
Entitlement Commodities	20,496	
Bonus Commodities	<u>619</u>	69,826

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Amounts reported on 6/30/07 R7120 Grant Section Auditors

Report not recorded on CMS Grant Auditor Report

Title I	051530-0506	\$	4,245	
Title I	061530-0506		8,788	
Title II D	054290-0506		126	
Title II D	064290-0506		530	
Handicapped Preschool and School Program			1,707	
Title V	060250-0506		1,809	
Title II A	060520-0506		28,577	
Child Nutrition Cluster				
	National School Lunch Program		251,164	
	National School Breakfast Program		<u>61,807</u>	358,753

Reconciliation of errors on new CMS Report

Title II D	062490-0506		(6,619)	
	(see above for correct amounts from R7120)			
Title I	061530-0506		(318,685)	
	(see above for correct amounts from R7120)			
Title II A	060520-0506		(120,510)	
	(see above for correct amounts from R7120)			
Title V	060250-0506		<u>(4,021)</u>	<u>(450,835)</u>
	(see above for correct amounts from R7120)			
				\$ <u><u>765,903</u></u>

(D) Adjustments to Schedule of Expenditures of Federal Awards

The District no longer reports deferred revenue with respect to Food Distribution (Commodities) inventory.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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July 13, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Reed City Area Public Schools
Reed City, Michigan

We have audited the financial statements of Reed City Area Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated July 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Reed City Area Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Reed City Area Public School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Reed City Area Public School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the district's financial statements that is more than inconsequential will not be prevented or detected by the district's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (Item B) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the district's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Reed City Area Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Reed City Area Public School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the district, and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

There were no prior year findings and questioned costs.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

Significant deficiencies identified: X Yes No

Significant deficiencies identified as material weakness(es)? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Significant deficiencies identified: Yes X No

Significant deficiencies identified as material weakness(es)? Yes X No

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

B. Financial Statement Findings

1) Lack of Adequate Internal Controls Over Athletic Gate Receipts and Community Services Receipts

Management is responsible for establishing and maintaining internal controls over cash for the district.

At many school districts, internal controls over decentralized cash collections present a challenge for management. The District currently does not have effective controls in place related to cash receipts from athletic gate receipts as well as community service receipts.

This condition was caused by limited personnel involved in the process and a lack of documentation related to the cash collection process.

The effect of this condition is that an environment is created in which the potential exists for cash collections to not be deposited into the District's bank accounts and go undetected in the financial recordkeeping process.

(View of responsible official) – The District is aware of this limitation, which was partially created by personnel changes, and is in the process of evaluating and implementing new controls to correct or mitigate this situation in the future. We are not aware of any instances of misappropriations occurring in the past.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

(View of responsible official) – The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

C. Federal Award Findings and Questioned Costs

None